

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07

FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 /112 W

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R 071200Z JUL 76

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 4832

LIMITED OFFICIAL USE SECTION 1 OF 2 ALGIERS 1705

DEPT PASS EXIMBANK FOR MORAN

E.O. 11652: N/A

TAGS: ECON, EGEN, AG

SUBJECT: ABDESSELAM ON ALGERIAN DEVELOPMENT

REF: ALGIERS 1541

1. SUMMARY: DURING CALL BY EXIMBANK OFFICIALS JUNE 30, ALGERIAN MINISTER OF INDUSTRY AND ENERGY ABDESSELAM PRESENTED SUMMARY OF ALGERIAN FINANCIAL RESOURCES, HYDROCARBON PRODUCTION PLANS, AND DEVELOPMENT POSSIBILITIES. END SUMMARY.

2. DURING NEARLY TWO-HOUR SESSION JUNE 30 WITH DELEGATION FROM U.S. EXIMBANK, ALGERIAN MINISTER OF INDUSTRY AND ENERGY BELAID ABDESSELAM MADE FOLLOWING KEY POINTS:

A. DEBT: LIMITED CAPACITY TO ABSORB DEVELOPMENT INVESTMENT RATHER THAN INSUFFICIENCY OF FOREIGN EXCHANGE IS MAJOR CHARACTERISTIC OF ALGERIAN DEVELOPMENT AT THE LIMITED OFFICIAL USE

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PRESENT TIME. ALGERIA DOES NOT BORROW WITHOUT BEING SURE

THAT IT HAS THE RESOURCES TO BACK UP ITS DEBTS. HOWEVER, DIFFCULTY IS IN KNOWING IF RECEIPTS FROM THESE RESOURCES WILL COME AT THE TIME THEY ARE NEEDED SO THAT ALGERIA CAN ACHIEVE BALANCE OF PAYMENTS EQUILIBRIUM OVER NEAR TERM.

B. OIL EXPORTS: ALGERIA'S EXPORTS OF CRUDE OIL IN 1976 ARE RUNNING AT ABOUT 50 MILLION TONS PER YEAR (1 MILLION BARRELS PER DAY). PRODUCTION SHOULD RISE TO 54 MILLION TONS PER YEAR IN 1977, AND PERHAPS HIGHER AFTER 1978. FURTHER, ALGERIA WILL ALSO BE ABLE TO EXPORT 15 MILLION TONS OF CONDENSATE PER YEAR BEFORE 1980. THUS, TAKING MOST CONSERVATIVE FIGURES, ALGERIA WILL BE EXPORTING 70 MILLION TONS OF CRUDE OIL AND CONDENSATE BY 1980. WHETHER ALGERIANS CAN ACHIEVE MORE THAN THIS FIGURE WILL DEPEND ON THE PROGRESS OF WORK NOW BEING DONE IN EXPLORATION AND DEVELOPMENT.

C. LNG EXPORT CONTRACTS: ALGERIA HAS FIRM GAS CONTRACTS COVERING SALE OF 27 BILLION CUBIC METERS PER YEAR. BEYOND THIS, THERE ARE CONTRACTS WHICH ARE LESS FIRM COVERING 30 BILLION CUBIC METERS PER YEAR OF GAS EXPORTS. TWO-THIRDS OF 30 BCM/YR AMOUNT IS CONTRACTS WITH U.S. FIRMS AWAITING FPC APPROVAL. REMAINDER IS AGREEMENT WITH ENI ON 11 BILLION CUBIC METER PER YEAR GAS PIPELINE TO ITALY. THOUGH FINAL ACCORD HAS NEARLY BEEN REACHED WITH THE ITALIANS, THERE STILL PROBLEMS WITH TUNISIA REGARDING TRANSIT RIGHTS. IF ALGERIA CANNOT SETTLE PROBLEMS WITH THE TUNISIANS, IT WILL CHANGE THE CONCEPT OF THE PROJECT TO AN LNG PLANT TO SERVE ITALY.

D. OTHER LNG POSSIBILITIES: THERE WERE ALSO OPTIONS TO PURCHASE GAS WHICH NEED TO BE CONSIDERED IN REVIEW OF ALGERIAN SITUATION. BEYOND ABOVE CONTRACTS AND AGREEMENTS, BELGIANS HAVE OPTION TO PURCHASE ADDITIONAL 1.5 BCM/YR OF GAS, FRENCH 1.5 BCM/YR, SWISS 1 BCM/YR AND GERMANS 1.5 BCM/YR. THUS, ALGERIA HAS 35 BCM/YR OF GAS EXPORTS IN THE PROBABLE BUT NOT CERTAIN CATEGORY. RE MORE DISTANT PROJECTS, NEGOTIATIONS ARE NOW UNDERWAY WITH AMERICAN-CANADIAN GROUP LED BY TENNECO FOR EXPORT 10-11 BCM/YR OF GAS. GAS WOULD PROBABLY GO TO LIMITED OFFICIAL USE

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CANADA WHICH WOULD USE 6.0-6.5 BCM/YR AND PERHAPS SELL REMAINDER TO CENTRAL U.S. GAS CONSUMERS (DEPENDING ON FPC DECISION).

E. LNG TOTALS: THESE FIRM AND PROBABLE GAS EXPORTS TOTAL IN THE RANGE OF 70 BCM/YR WHICH WILL PROVIDE SUFFICIENT RECEIPTS TO FINANCE ALGERIAN DEVELOPMENT. SONATRACH DOES NOT PLAN TO SELL MORE THAN THIS AMOUNT.

(ABDESSELAM THEN ALMOST AS AFTERTHOUGHT REFERRED TO THE
POSSIBILITY OF A GAS PIPELINE TO EUROPE AS "SOMETHING FOR
THE FUTURE.")

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ACTION NEA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

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DEPT PASS EXIMBANK FOR MORAN

F. RESERVES: ALGERIAN PROVEN GAS RESERVES AT THE
PRESENT TIME AMOUNT TO 3 TRILLION CUBIC METERS WITH PROBABLE
RESERVES AT AN ADDITIONAL 4-5 TRILLION CUBIC METERS. RE OIL
RESERVES, BRAZILIAN CONCESSIONAIRE PETROBRAS RECENTLY MADE
FIND WHICH COULD INDICATE LARGE, NEW OIL FIELD. POTENTIAL
NEW FIELD, WHICH LOCATED 200 KILOMETERS SOUTH OF TEBESSA,
IS IN A COMPLETELY NEW AREA AND YIELDS 36-37 DEGREE
CRUDE OIL--AN ENTIRELY NEW TYPE OF OIL FOR ALGERIA.
SONATRACH IS HOPEFUL THAT FURTHER DRILLING WILL CONFIRM
IMPORTANCE OF FIND.

G. REVENUES: IN 1967, ALGERIA WILL EARN ROUGHLY
\$5 BILLION FROM OIL SALES. IN 1977 THIS FIGURE SHOULD
BE BETWEEN \$5.5 AND \$6.0 BILLION. FOR 1977, AN INCREASE
IN OIL PRODUCTION BY 4 MILLION TONS (TO 54 MILLION
TONS PER YEAR) WOULD BRING REVENUES TO \$5.5 BILLION.

IF OIL PRICES ARE THEN RAISED BY 15 PERCENT IN
JANUARY (AN INCREASE WHICH ABDESSELAM NOTED MANY
OPEC MEMBERS WERE READY TO ACCEPT ON JULY 1), ALGERIAN
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OIL REVENUES WOULD INCREASE TO ABOUT \$6 BILLION. GAS
EXPORT PRICES ARE ALSO RISING. THE MAJORITY OF ALGERIAN
GAS CONTRACTS CONTAIN PRICES WHICH ARE LINKED TO THE PRICES
OF COMPETITIVE FUELS. THIS INDEXATION FORMULA NOW
YIELDS GAS PRICE BETWEEN \$1.40-\$1.45/MMBTU. BY 1980
OIL EXPORTS, ASSUMING A REASONABLE LEVEL OF PRICE INCREASE,
AND OIL AND GAS EXPORTS WOULD PRODUCE AN ANNUAL REVENUE OF
\$10 BILLION FOR ALGERIA. THIS FIGURE DOES NOT INCLUDE
SIGNIFICANT POTENTIAL REVENUE FROM SALE OF LPG--REVENUE WHICH
IS BEING USED AS "SAFETY FACTOR."

H. LNG PLANTS: SONATRACH HAS SIGNED CONTRACT FOR
CONSTRUCTION OF LNG II PLANT AT ARZEW AND SALES CONTRACTS
COVERING ALL LNG II PRODUCTION HAVE NOW BEEN SIGNED.
MOST RECENT WAS CONTRACT WITH GAZ DE FRANCE FORMALLY SIGNED
JUNE 30. SONATRACH NOW DISCUSSING CONTRACTS TO BUILD
LNG III IN ORDER TO AVOID LOSING TIME WHILE WAITING FOR
FPC APPROVAL OF GAS CONTRACTS. IT MAY NOT BE NECESSARY
FOR ALGERIA TO SELL ALL OF THE GAS FROM LNG III UNDER
20-YEAR CONTRACTS. WORLD GAS MARKET MOVING TOWARD A
PERIOD OF SHORTER CONTRACTS WITH MORE FLEXIBLE PRICES.
ALGERIA MIGHT THUS SELL 60-70 PERCENT OF THE OUTPUT FROM
ANY LNG PLANT, LEAVING REST FOR SPOT SALES. GREATER
PRICE FLEXIBILITY WOULD COMPENSATE FOR INCREASED RISK.

I. DEVELOPMENT OBJECTIVES: IF ALGERIA CAN REACH
1982-83 PERIOD WITHOUT MAJOR FINANCIAL PROBLEMS, IT WILL
HAVE PASSED OVER THE HUMP IN ITS INDUSTRIAL DEVELOPMENT.
BEYOND INDUSTRIAL DEVELOPMENT, HOWEVER, HOUSING REMAINS A
PRIMARY ALGERIAN OBJECTIVE AS DOES EDUCATION. THESE GOALS
WILL BE INCREASINGLY EMPHASIZED IN THE THIRD DEVELOPMENT
PLAN BEGINNING IN 1978. ALGERIA IS NOW CONCENTRATING ON
ITS INDUSTRIAL DEVELOPMENT PHASE TO PROVIDE THE MEANS TO REACH
THESE SOCIAL DEVELOPMENT GOALS.

3. COMMENT: IN CONVERSATION WITH EXIMBANK OFFICIALS,
ABDESSELAM ASKED FEW QUESTIONS ABOUT EXIMBANK POLICIES
OR FINANCING POLICIES VIS-A-VIS ALGERIA. HE CONCENTRATED
ON PRESENTING AS FAVORABLE A PICTURE AS POSSIBLE OF
ALGERIAN DEVELOPMENT AND ITS PROSPECTS. HIS COMMENTS SHOULD
BE READ IN THIS LIGHT, I.E., AS AN ATTEMPT TO
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PERSUADE THE U.S. EXIMBANK THAT ALGERIA IS A DYNAMIC
AND CREDITWORTHY COUNTRY.LYNE

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